

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01 PA-01
/092 W

-----071481 101703Z /50

R 101608Z APR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7487
DEPARTMENT TREASURY
AMEMBASSY PARIS
AMEMBASSY BRUSSELS
INFO AMCONSUL HAMBURG

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USOECN, USEEC

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: MORE ON THE OUTLOOK FOR THE GERMAN ECONOMY

REF: (A) BONN 5885, (B) BONN 5678

1. SUMMARY -- PESSIMISTIC MOOD DOMINATED SEMI-ANNUAL
BUSINESS CYCLE CONFERENCE OF KIEL ECONOMIC INSTITUTE.
SECTORAL REPRESENTATIVES SAW RELATIVELY BRIGHT PROSPECTS
FOR ONLY FEW INDUSTRIES. RISING LABOR COSTS,
APPRECIATING MARK, AND WEAK FOREIGN DEMAND BLAMED FOR
GENERAL STAGNANT ECONOMIC SITUATION. END SUMMARY.

2. AT ITS SEMI-ANNUAL BUSINESS CYCLE CONFERENCE THE
KIEL ECONOMIC INSTITUTE PRESENTED THE FOLLOWING 1978
AND 1979 PROJECTIONS:

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GERMAN GNP

(PERCENTAGE CHANGE FROM PREVIOUS YEAR, 1970 PRICES)

1978	1979
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PRIVATE CONSUMPTION	3	3 1/2
PUBLIC CONSUMPTION	3	2 1/2
INVESTMENT IN EQUIPMENT	5 1/2	8 1/2
CONSTRUCTION	3 1/2	7
INVENTORY ACCUMULATION (DM BILLION)	(8 1/2)	(10)
EXPORTS	4 1/2	5 1/2
IMPORTS	6	7 1/2
NET FOREIGN BALANCE (DM BILLION)	(24 1/2)	(22)
GROSS NATIONAL PRODUCT	3	4

GNP DEFLATOR	3	4 1/2
CPI	3	4

3. KIEL ECONOMIST MAKING PRESENTATION CHARACTERIZED OFFICIAL FRG SCENARIO FOR 1978 (GNP GROWTH OF 3 1/2 PERCENT) AS "ALMOST IMPOSSIBLE" IN VIEW OF STAGNATION IN WEST EUROPEAN ECONOMIES, HIGH WAGE SETTLEMENTS, AND RECENT EVIDENCE OF INVESTOR PESSIMISM AND OF A SLOW-DOWN IN INDUSTRIAL ORDERS. STRONGER IMPORT THAN EXPORT GROWTH EXPLAINED BY FRG BEING MORE ADVANCED IN BUSINESS CYCLE THAN OTHER WEST EUROPEAN COUNTRIES. MILD UPSWING BEGINNING IN LATTER PART OF 1978 AND CONTINUING THROUGH 1979 ASSUMES FIVE PERCENT GENERAL TAX REDUCTION AS OF JANUARY 1, 1979 AS FRG CONTRIBUTION TO ECONOMIC SUMMIT. DR. NORBERT WALTER, INSTITUTE ECONOMIST MAKING PRESENTATION, CHARACTERIZED "RISK" FACTOR OF GNP LIMITED OFFICIAL USE

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PROJECTIONS AS 1/2 PERCENT ON DOWNWARD SIDE FOR 1978 AND TWO PERCENT FOR 1979. KIEL ECONOMISTS EXPECT MONETARY EXPANSION IN 1978 TO REACH ELEVEN PERCENT IN 1978, AGAIN FAR OVERSHOOTING TARGET OF EIGHT PERCENT, AND THAT THIS WILL EXERT UPWARD INFLUENCE ON PRICES BEGINNING TOWARD END OF 1978. RECENT IMPROVEMENT IN PRICE PERFORMANCE EXPLAINED IN LARGE PART BY DM APPRECIATION.

4. COMMENTS BY SECTORAL REPRESENTATIVES TENDED TO SUPPORT INSTITUTE'S FORECAST FOR 1978. INDUSTRY SPOKESMEN EXPECTED NO IMPROVEMENT IN REAL PROFITS IN 1978, HENCE WERE DECIDEDLY PESSIMISTIC ABOUT INVESTMENTS OF THE EXPANSIONARY TYPE. SEVERAL SPOKESMEN EXPRESSED VIEW THAT LEVEL OF GERMAN LABOR COSTS WAS SUCH IN RELATION TO COSTS IN OTHER WEST EUROPEAN COUNTRIES (EXCEPTING NORDIC COUNTRIES AND BELGIUM) THAT FUTURE INVESTMENTS WOULD BE MADE IN THOSE COUNTRIES RATHER THAN IN FRG.

5. CONSTRUCTION INDUSTRY IS ONE OF FEW BRIGHT SPOTS IN ECONOMY. LOW INTEREST RATES AND LARGE BACKLOG OF

ORDERS (PARTIALLY ARISING OUT OF BUREAUCRATIC DELAYS

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AND LEGAL CHALLENGES TO CERTAIN PROJECTS, PARTICULARLY
NUCLEAR POWER PLANTS) WILL BOOST THIS SECTOR FOR SOME-
TIME TO COME. PRINCIPAL CONSTRAINT IS ON SUPPLY SIDE.
CONSTRUCTION WORKERS LAID OFF EARLIER, HAVING FOUND
NEW JOBS, ARE RELUCTANT TO RETURN TO "DIRTY" CONSTRUC-
TION WORK. OFFICE AND DATA PROCESSING EQUIPMENT SECTOR
EXPECTS ANOTHER BANNER YEAR AS DOES AUTO INDUSTRY
ALTHOUGH IN CASE OF LATTER NO FURTHER RISE OVER 1977
EXPECTED. SPOKESMEN FOR FOOD, CHEMICAL AND STEEL
SECTORS EXPECTED MARGINAL IMPROVEMENTS FOR THEIR
SECTORS IN 1978. MACHINERY SECTOR SPOKESMAN WAS
PESSIMISTIC DUE TO RISING IMPORTS AND INCREASING
COMPETITION IN FOREIGN MARKETS ESPECIALLY IN AREA
OF STANDARDIZED MACHINERY.

6. BUNDESBANK REPRESENTATIVE TOOK STRONG EXCEPTION TO

IMPLIED CRITICISM OF MONETARY POLICY. HE EMPHASIZED
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ECONOMIC DISRUPTIONS WHICH WOULD ENSUE FROM VOLATILE
EXCHANGE RATE MOVEMENTS IF BUNDESBANK ADHERED STRICTLY
TO MONEY GROWTH TARGET AND IGNORED EXCHANGE RATE MARKET.
HE ALSO SHARPLY ATTACKED U.S. FAILURE TO CONTROL OIL
IMPORTS AS MAIN CAUSE FOR HUGE U.S. CURRENT ACCOUNT
DEFICIT AND FOR EXCHANGE MARKET DISTURBANCES. IT WAS
POINTED OUT BY U.S. OBSERVERS AT MEETING THAT U.S. OIL
IMPORTS COULD NOT BE REDUCED SIGNIFICANTLY IN SHORT RUN
WITHOUT AT SAME TIME INDUCING MAJOR RECESSION.

7. WALTER TOLD EMBOFF PRIVATELY THAT INSTITUTE WAS
MUCH-CONCERNED TO GET THIS FORECAST "RIGHT" IN VIEW
OF LOSS OF PUBLIC CONFIDENCE IN INSTITUTE'S PROJEC-
TIONS WHICH HAVE FREQUENTLY BEEN FAR OFF TARGET, MOST
NOTABLY FOR 1977. HE WAS PERSONALLY GLOOMY ABOUT THE
LONGER TERM OUTLOOK IN VIEW OF INCREASING PROTECTIONISM.
HE SUGGESTED THAT THE ECONOMIC SUMMIT SHOULD BE CONCERNED
ABOUT REMOVING BARRIERS TO TRADE, ESPECIALLY AGRICULTURE,
RATHER THAN WITH SHORT-RUN GNP GROWTH OVER WHICH THE
PARTICIPANTS HAD LITTLE CONTROL.

8. WE EXPECT CONSENSUS FORECAST OF ECONOMIC
INSTITUTES DUE OUT ON APRIL 24 WILL CONFORM RATHER
CLOSELY WITH THAT OF KIEL INSTITUTE. THIS IMPRESSION
STRENGTHENED BY CONVERSATION OF EMBOFF WITH HAMBURG
INSTITUTE (HWWA) FORECASTER WHO SAW GNP EXPANDING BY
NO MORE AND POSSIBLY BY SOMEWHAT LESS THAN THREE PERCENT.
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